

GAF Corporation

Annual Report 1972

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## GAF: con'-ge-ner'-ic growth

Since GAF embarked on its vigorous modernization and expansion program in 1965, the Company has taken on many additional outward characteristics, including several new business fields and product lines and an international tone.

This growth has been a highly selective and orderly broadening of the Company's business and core of GAF—chemicals—very much at the nuclear center of its endeavor.

For more than a century, the Company's unique application of chemistry and technology had made it a leader in the chemical industry and had opened paths into the chemically-based photographic and reprographic businesses.

GAF thus structured its expansion program on these fundamental strengths

The course charted was one of congeneric growth—development having to do with, or related to, the same genus that had given GAF its start. The strategy was to concentrate the firm's talents and resources on areas it knew best and which could complement existing operations.

The chemical business was streamlined to take full advantage of the technical and marketing skills which had produced new and promising specialty products. Profitable textile chemical and agricultural chemical lines also were integrated into the operations.

The photo and reprographics areas were separated and each was strengthened by new facilities and services. Photo, for instance, acquired hardgoods and film finishing capabilities while reprographics supplemented its diazo line and emerged as a business systems enterprise with

microfilm, office copier and business forms capacity.

Entry into the building products field was stimulated by the trend toward synthetic, chemically-based materials for roofing, siding and resilient flooring. And industrial needs for filtration systems and noise control products utilizing synthetic felts underlined GAF's penetration into these marketing areas as well.

The success of this congeneric concept as a management tool is evident in the wide line of quality GAF products found today in virtually every market. Each of these items, emerging from one of five basic GAF product groups, reflects the skillful chemical technology that has been the heart of GAF. And very much like the basic life cell process itself, each new GAF endeavor, while developing its own entity, supports and nurtures total corporate growth.

## GAF Corporation Annual Report 1972



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### Cover:

GAF's five basic product groups, symbolically reflected in scientific glassware to emphasize the chemistry or technology from which they evolve, embody the congeneric growth of the Company. Illustrated are Building Materials, including roofing, siding and resilient flooring; Photographic film and equipment; Industrial products, such as filtration systems using synthetic felts; Business Systems, depicted by a dazoprinter; and Chemicals, represented by a distillation unit.

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The Annual Meeting of GAF Shareholders will be held on April 24, 1973.

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## Message from the President



The year 1972 was one of firm progress for GAF.

Sales, net income and earnings per share reached new highs.

Net income for the year 1972 was \$27,706,000. This compares with \$21,907,000 for the previous year before deducting an \$8,433,000 extraordinary charge, or a net income of \$13,474,000 for 1971.

Primary earnings per common share for 1972 were \$1.75 as against \$1.33 for the year earlier before deducting 62 cents for the extraordinary charge. Fully diluted earnings per common share were \$1.49 for 1972 versus \$1.13 before extraordinary items.

### Good Sales Growth

Sales for 1972 amounted to \$768,460,000 against \$683,762,000 for 1971.

Operating profits were increased in three of the five product groups and all contributed to the sales advance. Federal Price Control guidelines, coupled with rising labor and other costs, however, adversely affected profits.

The Chemical Products Sales Group, despite a healthy recovery in sales from the flat business of the year earlier, was unable to increase its volume sufficiently to overcome costs, especially in the dyestuff and pigment field. New specialty

products, the prime factor in GAF's pivotal chemical operations, continued to be the hallmark of the sales growth.

The Photo Products Sales Group had appreciable improvement in sales and earnings, as a result of aggressive marketing, better productivity and improved quality throughout the comprehensive and closely-knit photographic divisions.

### Building Products Strong

GAF's Building Products Sales Group, while showing substantial sales gains, was inhibited somewhat in its earnings because it could not raise prices for its asphalt roofing products in the face of mounting costs. In addition, a costly two-month strike in the sheet vinyl flooring operation adversely affected profits. Demand remains strong for all products of the Building Materials Group. GAF's position in the remodeling and replacement markets, which accounts for approximately 70 percent of roofing products sold by GAF, is expected to carry the Company forward in this field. A new roofing mill, which came on stream late in 1972, is expected to help supply this demand.

The Business Systems Products Sales Group in 1972 recouped sales lost during the earlier general U.S. economic decline, but higher-than-budgeted costs for the drawn-out consolidation of its British operations resulted in slightly lower earnings than in 1971. Domestic sales, however, were strong in the diazo, micrographic and business forms areas. With the British consolidation complete, improved results are expected in 1973.

#### Industrial Products Gain

GAF's Industrial Products Sales Group made significant gains during 1972. Increased sales of filtration and noise control products and felt for a great many other uses, combined with rising demand for granules in the asphalt shingles market, should permit the achievement of new highs in 1973.

International Operations continued to be of increasing significance in GAF's total business, and contributed more than \$100,000,000 in sales in 1972, 13 percent of the corporate total.

#### New Roofing Mill

Capital expenditures during the past year amounted to \$29,022,000 with a sizable portion of this allocated to the new roofing mill at Mt. Vernon, Ind. Approximately one sixth of the capital expenditures was for new equipment and processes to meet recently enacted health and environmental standards. Virtually every one of the Company's manufacturing facilities has budgeted expenditures for improved pollution control.

In another expansion project, a new \$2,500,000 office building is being erected at the site of the Wayne, N.J. Research and Training Center to house several of the financial and engineering services presently located at Corporate headquarters in New York City.

A settlement was entered into which terminated all litigation and disputes with certain shareholders who tried unsuccessfully in 1971 to replace the GAF Board of Directors. The U.S. District Court for the Southern District of New York, after notice to all shareholders, approved the agreement which also provides for a change in the Company's restricted Stock Purchase plan. Under the agreement, the price of such stock will be offered to key employees at not less than 50 percent of the actual market value. Offerings of such stock had previously been made at 20 to 40 percent of the market price.

#### Consumer Study Begun

During the year GAF embarked on a wide reaching corporate consumer affairs study to evaluate the handling of customer inquiries and complaints to improve and centralize this function. The completion of this study, targeted for June of 1973, is expected to improve customer confidence and satisfaction in the critical area of consumerism.

#### Household Unit Started

A Household Products Department was established at the end of 1972 to study and develop plans for GAF's entry into the market for consumer packaged goods stemming from the Company's chemical technology.

As in the past, GAF's future rests on the basic strengths of the Company—chemical technology, depth of management and dedicated employees. The Board of Directors is convinced that each of these elements is stronger today than ever before and wishes to thank the men and women of GAF for their accomplishments and all shareholders for their support.

By Order of the Board of Directors.



Jesse Werner  
Chairman of the Board and President

February 22, 1973

## Chemicals



Although GAF's Chemicals Group in 1972 penetrated a number of diversified markets with growing potential, the increased sales volume was not sufficient to overcome rising costs and as a result profits were down slightly.

The cost factors were especially keen in the highly competitive dye and pigment field where GAF's consolidation program continued to phase out the manufacture of some of the older, unprofitable lines.

Innovation in each of the Chemical Group's four major product categories, including dyes, contributed to sales increases, however.

In the field of textile chemicals, the introduction of an improved Gafstat® anti-static component which is applied to the back of carpeting to eliminate electric

shock, was noteworthy. The carpet industry also showed considerable interest in several new GAF latices because of their superior processing properties.

The versatile GAF acetylene products line was further expanded by several noteworthy additions, including Plasdone® C-15 carrier for injectable veterinary pharmaceuticals. Gafquat® 755 resin, a GAF innovation which enhances hair

conditioning and grooming products through its excellent holding power and resistance to humidity, continued to enlarge its market. Polyclar® AT clarifying agent also enjoyed new sales when it was approved for use in beers made in Germany. It previously had won the acceptance of several American brewers and wineries.

A significant addition to GAF's fast-building agricultural chemicals line in 1972 was Cobex, a new selective weed killer used in cotton and soybean cultivation, produced for U.S. Borax Co. GAF's Chemicals Group has already established a firm position in this field with Amiben, a soybean herbicide manufactured exclusively for Amchem Products, Inc., and GAF Cepha® plant growth regulator, currently in field trials.

**Clearer, Flavor-Full Beer:** GAF Polyclar® AT clarifying agent enables modern master brewers to meet a growing preference for sparkling, clear and lighter-flavored beers. The GAF specialty chemical adsorbs a wide variety of substances causing instability and flavor loss in beers. Once collected, these "polyphenols" are easily removed, along with the Polyclar® AT powder, through simple filtration.



The GAF line of surfactants—used as detergents, lubricants and wetting agents in a wide spectrum of industries—continued to make satisfactory contributions to sales. Current research in this area is directed toward expansion of these markets.

GAF's dye and pigment business continued under severe pressure, especially from foreign producers who

are aided by a beneficial tariff structure. The concentration on the more profitable dyes used for dyeing and printing the newer fibers and fabrics in the rapidly changing textile markets, however, is expected to improve aspects of this business.

As the core of GAF's overall activities, chemical operations continued to exert a vital congeneric effect on the various other product groups throughout the company. The acquisition of the Ames Chemical Co. in March, 1972, is one illustration. This small firm, principally a producer of silver salts, is now a part of the Chemical Group and supplies a substantial portion of its silver nitrate production to GAF's Industrial Photo Division where it is a key ingredient in the manufacture of all photographic film and

papers. The new acquisition also provides GAF with a base for expanded future operations in silver chemistry.

In other exchanges fostering congeneric benefit, the Chemical Group provides increasing quantities of color-former chemicals and ultra violet absorbers for GAF color photographic products. Also, large quantities of latex polymer chemicals manufactured by GAF are used by the Building Products Group in producing sheet vinyl flooring and roofing products ■

**Stretching Rubber Yields:** GAF's plant growth regulator, Cepha<sup>®</sup>, synthesized by GAF research scientists and currently being supplied to Amchem Products Inc., has demonstrated a remarkable ability to stimulate the flow of natural latex in rubber trees. In other field tests, Cepha has proved effective in controlling the growth of a wide variety of fruits, facilitating the mechanical harvesting of these crops.



**Carpet Without Shock:** GAF's research in textile chemicals has provided an answer for the elimination of annoying electrical shocks from carpeting. Gafstat<sup>®</sup> anti-static component, applied to the back of carpeting during mill production, has proved to be effective and economical.

## Photo Products



In 1972, a closely integrated film, hardgoods and processing capability, supported by energetic and creative marketing, paced GAF's Photo Group to a second year of strong improvement in sales and profitability.

Following several years of heavy investment for modernization and expansion, the turnabout begun in 1971 continued as the essential components of a successful photographic business were brought into place. Progress was made in virtually every area of the diversified operation.

The Consumer Photo Division, responsible for sales of a broad range of film, photographic equipment and pictorial products to the amateur market, benefited from increased consumer exposure during the year. This resulted from a heavier television advertising program and the impact of the previously obtained film franchises at the popular Walt Disney World and Disneyland tourist sites. Success at the Disney sites led to similar arrangements with Jungle Habitat, Sea World and other attraction centers during 1972. Early this year the contracts with the Disney amusement parks were extended to 1976.

Strong film sales led the Division's growth, but photographic equipment, spearheaded by several new products, also made substantial gains. The new hardgoods included:

- A line of GAF Hush-A-Matic™ slide projectors which virtually eliminate motor noise.
- Several movie projectors, including the Step Motion™ projector with a control which affords ultra slow-motion or stop-action viewing.
- A series of new Super 8 movie cameras, including the GAF Super 8XL movie camera featuring an extra fast lens for available light photography.
- The pocket-sized GAF 220 instant-loading camera.

The pictorial products segment of the Consumer Photo Division also broke new ground during the year with its Klomp-It™ board game utilizing GAF® View-Master® 3-D viewers and reels. The game was introduced in time for the Christmas

buying season and was received enthusiastically in the toy market.

Aggressive marketing of the entire GAF View-Master line, including the first electronic GAF Talking View-Master® viewer and compatible reels, was highlighted by a supermarket distribution program and expansion of the sales force.

**Photo Pocket Power:** Weighing only about five ounces and using the new mini 110 film, the GAF 220 pocket camera was one of several new photographic hardgoods products introduced last year. GAF's growing ability to satisfy customer demands for innovative, quality products coupled with an ever-increasing number of dealer outlets, was instrumental in the realization of increased sales and profits in the photo products group.

Mail order programs included GAF movie kits, combining camera, projector, film and other accessories, and View-Master products.

GAF Industrial Photo Division products consisting of professional photographers' and photofinishers' supplies, X-ray films and chemicals, and graphic arts films and chemicals, also contributed to the overall improvement trend.

Aided by a new three-step color print paper which can be processed in three solutions instead of the previous five, the professional photo segment of the business was strengthened substantially.

In the Industrial X-ray, medical X-ray and graphic arts markets, sales and technical services forces were upgraded and expanded. New products, including high speed film for machine processing in



printing operations and high resolution X-ray film, were introduced. At the same time a number of unprofitable items were eliminated from the GAF catalog.

The Binghamton, N. Y. plant, at which GAF's sensitized photo products are produced, also made gains in improving productivity and reducing costs. Sales to Federal government agencies of aerial

film increased significantly over the previous year and medical X-ray film sales continued at a high level. In the special field of miniature electronic circuitry, research and marketing studies on GAF's Microline® plates were furthered.

Quality photofinishing provided by the network of nationwide facilities operating under the GAF Photo Service Division was an important aspect of the Company's photographic growth in 1972. The finishing network, which added a plant in Kansas City, Kans., at mid-year to bring its total to 17, served as an excellent vehicle for promoting GAF consumer products as it services thousands of photography outlets. In 1972, the Division introduced a new borderless print concept which was very well received ■

**One, Two, Three—And See:** GAF's new three-step Color Print Paper simplifies work for professional photofinishers and provides a variety of surfaces for quick-drying, easy-to-handle prints. Resin-coated to inhibit moisture, the new plasticized paper affords speedy processing and top quality color balance. It is designed for use with GAF's new three-step chemical system.

**Tiger Tank Trader:** GAF's efforts to increase distribution and availability of its photographic film and equipment have included the marketing of these products at prominent tourist attraction sites throughout the nation. Amusement centers such as Disneyland, Walt Disney World and other major parks now offer GAF films, cameras, projectors and pictorial products. Warner Bros.' Jungle Habitat in West Milford, N. J., is one of the latest GAF photo marketing operations.



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## Business Systems



While the GAF Business Systems Group managed to increase sales in the domestic and international markets in 1972, earnings were down because of problems in foreign operations.

Difficulties were encountered in overseas inflation, losses from devaluation of the British Pound Sterling and the higher-than-planned cost of merging the English operations into one combined facility outside London.

Sales in the United States responded to the upturn in business generally and the GAF marketing organization was able to capture a respectable portion of the added volume. Every segment of the domestic business turned in a better performance in 1972, including diazo equipment and supplies for the printing of engineering drawings, micrographic

supplies, office copiers and related paper, audio visual products and business forms.

Of special significance was the introduction of the GAF 175 diazo printer designed for smaller architectural and engineering offices. The new machine reached a previously neglected market and was very well received. Late in the year, the GAF 1200 Printmaster® printer, a highly automated production machine,

was introduced for large industrial users and commercial printshops.

In the field of custom-designed business forms, GAF products ranging from computer print-out cards to restaurant checks showed a substantial upswing in volume as the year progressed.

In England, the effective cost-savings envisioned in the consolidation of four locations in London into one at Colnbrook, Bucks, were delayed temporarily by the difficulties in transferring personnel to

**Job Bank Magnifies Results:** GAF's micrographic communications aids are being used to help job seekers and prospective employers come together. In Baltimore and at several other facilities operated by the U.S. Department of Labor, GAF's 7511 Microfiche readers are used to review daily computer lists of job vacancies, including work hours, salaries and other pertinent data. The lists, printed on small microfiche cards, are magnified by the GAF readers for easy screening by jobseekers.

**Business Forms Business:** After its chemical treatment, a magnesium printing plate undergoes quality control examination under a magnifying glass by a photo-engraver. The plate will be used to print GAF Card-Set™ forms, one of a wide range of custom designed printed documents produced at the Shelby, O. business forms plant.



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## Building Materials



the new site. The loss of skilled employees resulted in high, drawn-out start-up costs. By the end of the year, however, the move was completed, permitting focusing on resolution of the remaining problems.

Despite the slowdown in the Australian economy, GAF's business systems operations there continued to expand. Further moves to enter the South Pacific and Southeast Asia markets began to show results ■

A continued strong demand in the construction and home remodeling markets helped to boost GAF sales of roofing, siding, floor tile and sheet vinyl floor products to new highs in 1972. The favorable market conditions, however, necessitated sound production and distribution management as the demand pushed many GAF building material plants to capacity.

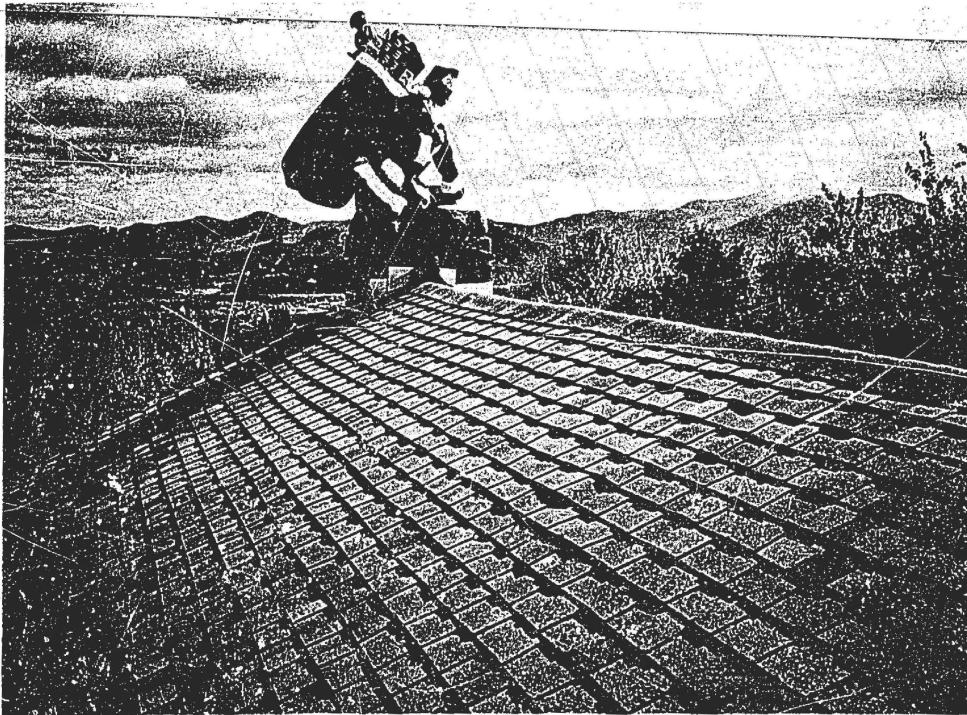
The pressure was particularly keen in the floor products operations, which experienced a 56-day strike at its Whitehall Township, Pa., sheet vinyl plant. Although production was maintained during the period, the costly strike disrupted schedules and in some cases drained distributor inventories.

GAF asphalt roofing, which is supplied in large measure to the ever-growing replacement market, continued to lead

the sales advance in the Building Products Division. An encouraging aspect in this area is the growing consumer preference for GAF® Timberline™ asphalt shingles, a heavy-weight, fire-resistant premium product which looks like wood shakes.

An added facility to fill the demand for roofing products became available in late 1972 with the completion of a new roofing mill at Mt. Vernon, Indiana, the 13th in the GAF network. The new plant

**Shingle For Kringle:** Mr. Claus, principal attraction at Santa's Workshop, tourist center at North Pole, N.Y., inspects the new GAF® self-sealing Timberline™ asphalt roofing shingles on his home. Timberline, which simulates the beauty and traditional charm of wood shingles, has a fire-resistant mineral surface and is warranted against manufacturing defects for 25 years.



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## Building Materials (continued)

will serve markets in Southern Indiana, Kentucky and Tennessee.

Asphalt coated felts used in built-up roofing, and mineral fiber siding products, such as GAF Stratalite® siding, also made appreciable sales gains. GAF Vanguard™ vinyl siding and shutters, introduced during the year, exceeded sales expectations.

Efforts to increase market penetration through distribution channels such as cash-and-carry lumber yards resulted in sales gains from these outlets. The retail yards also served as a primary test market for a new household product, GAF Hearth-Glow Brick™ interior decorative wall covering.

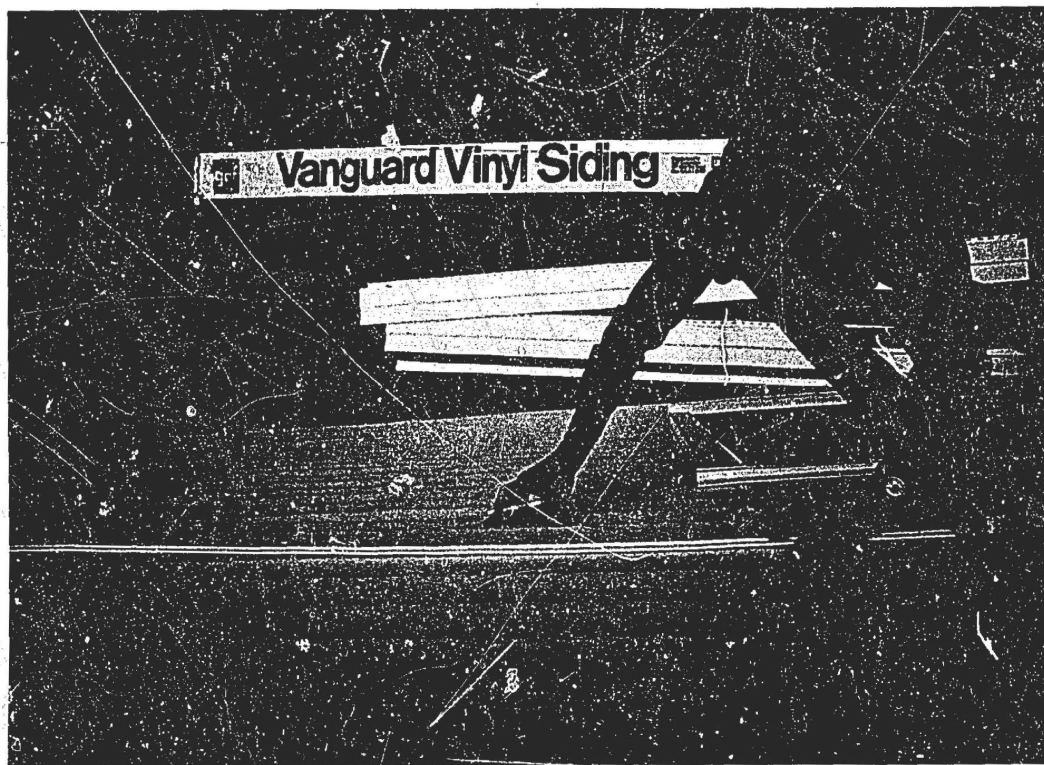
The GAF mineral fiber products continued to benefit from sales of GAF canal bulkhead sheeting which has become the material of choice for contractors in

major waterway and inland water development projects. Flat and corrugated mineral fiber sheets, especially designed to meet the needs of industrial cooling towers, also are becoming an increasingly important part of this business.

Despite the two-month strike in its sheet vinyl operation, and a somewhat sluggish market in floor tiles which produced extreme price competition, the Floor Products Division increased its overall sales volume.

This resulted from a vigorous marketing plan which opened up new wholesale distribution points in 12 cities throughout the nation. The marketing effort also was aided by 10 new designs in the floor tile line and 12 additional patterns in sheet vinyl, each in a variety of colors. The emphasis on style, color and texture is important in floor product sales and GAF has earned a leadership position for its creativity and flair in the fashion area.

**Siding Upward:** GAF Vanguard™ vinyl siding, a polyvinyl chloride product recently introduced to homeowners, won't rot, dent, chip or peel and is backed by a 20-year warranty for appearance and performance. The clapboard design is available in four colors—muted gray, light green, gleaming white and cheery yellow—in eight-inch and double-four inch widths.



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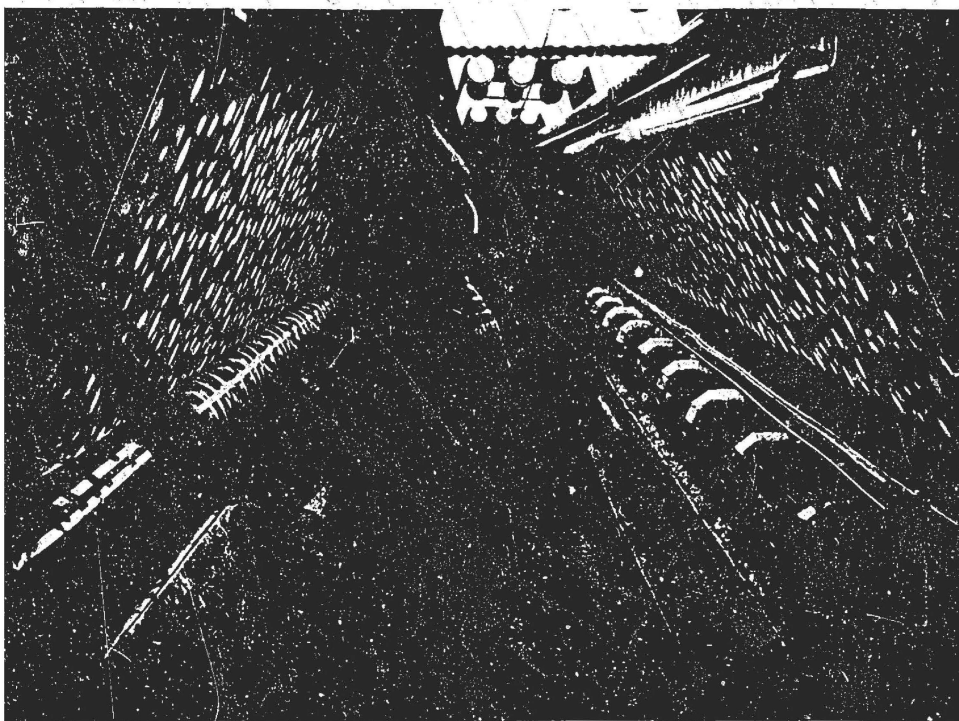
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Of particular significance in the flooring market was the introduction, at the close of 1972, of the new and luxurious GAF® Sofstep® Vinylglo™. The new product, which combines an extraordinary underfoot comfort with vinyl's durability and the sensation of carpet, is almost a full one-quarter inch thick. The first two color-coordinated patterns revealed the versatility of GAF design. One has the woven-fabric look of carpet and the other the richness of tiled terrazzo. Both are subtly embossed to give textured appearance.

In the do-it-yourself market, GAF Sure-Stik® floor tile continued to expand sales as a result of design innovation and eye-appealing point-of-purchase merchandising aids. This easy to install, adhesive-backed tile won immediate consumer acceptance when it was introduced in 1969.

The flooring felt mill at Whitehall, completed late in 1971, is now supplying the base for sheet vinyl. The new facility has increased volume, reduced raw material cost, and provided better yields on all products produced at that location. In addition, it released additional capacity at the Gloucester City, N.J. plant for the manufacture of much needed roofing felt.

High Fashion Underfoot: At GAF's Whitehall, Pa. floor products plant, an attractive pattern is applied by rotogravure process to the newest and most luxurious GAF® sheet vinyl product—Sofstep® Vinylglo™ flooring. Almost a quarter-inch thick, it features extraordinary underfoot comfort and the soft feel of carpeting with the durability and easy maintenance of vinyl.



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## Industrial Products



The economic upturn in 1972 helped pave the way for marked improvement in sales for GAF's Industrial Products Group. While producing a line of products which are standard in a wide variety of businesses, the Group also made notable progress in establishing frontiers in new market areas.

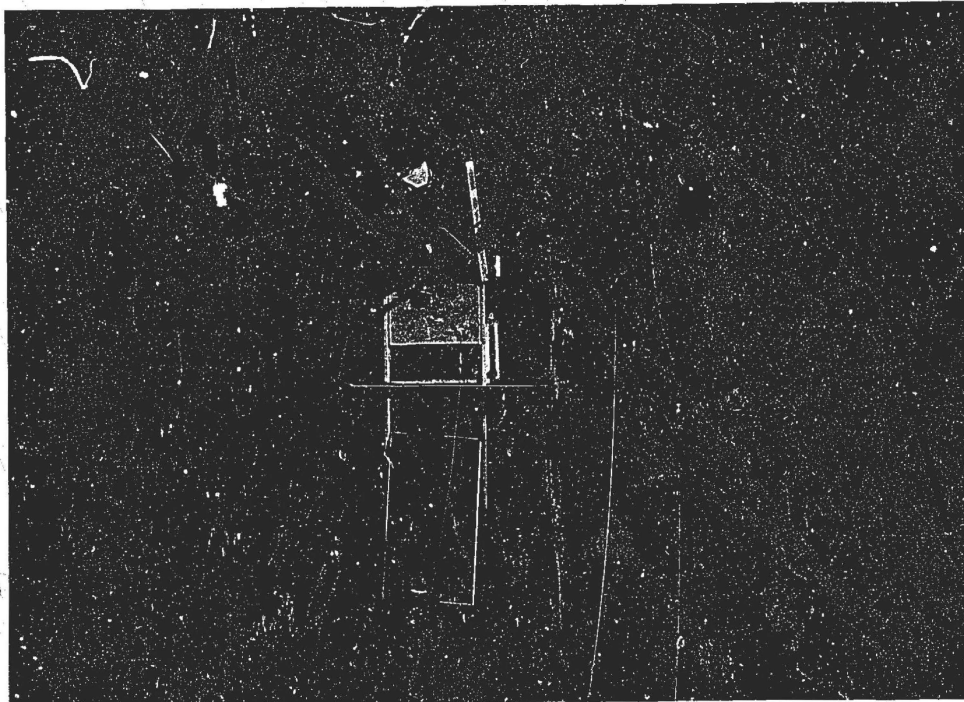
Growth was pronounced in automotive sound control products and filtration systems utilizing GAF wool and synthetic

felts. Sales of mineral granules also were up on the basis of their relationship to the buoyant asphalt roofing market.

New marketing beachheads were opened in the field of industrial sound control, particularly in systems used in small engines and appliances. This business has excellent potential in light of the mounting public pressure for noise abatement.

GAF's automobile sound control products, manufactured from asphalt mastic, saturated felts and fibrous padding, have become an integral part of today's "quiet car". These sales were

**Sound Control For Communications:** The problem of noisy compressors, used to pump dry air into telephone cables to eliminate corrosion, moisture and annoying cross-talk, has been resolved by GAF sound control experts. Special insulated boxes, made with a composite of GAF<sup>®</sup> felt and mastic and covered with a layer of foam, have been developed to help eliminate the noise pollution.



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enhanced during 1972 by the development of specialized molded automotive products which are more easily installed and provide savings on the assembly line.

In the filtration field, GAF has engineered entire new systems to help industry comply with the new environmental and health and safety standards promulgated by government agencies. Pioneer work in this field, including the development of convenient portable

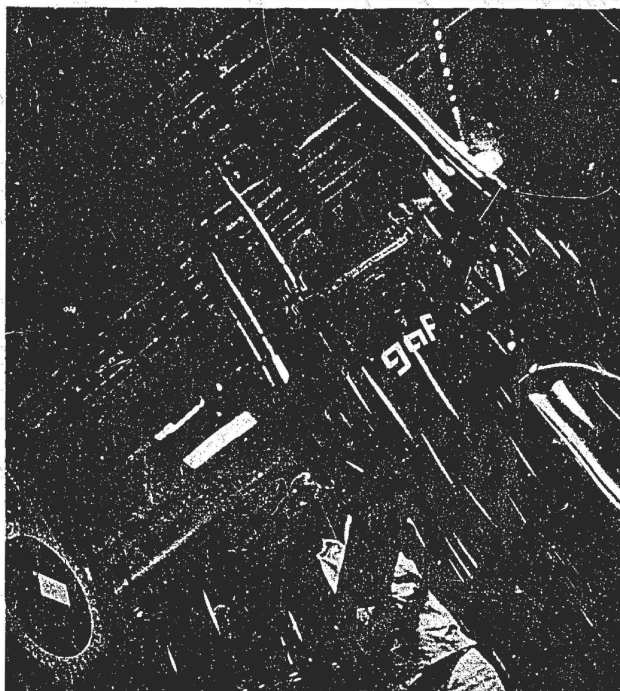
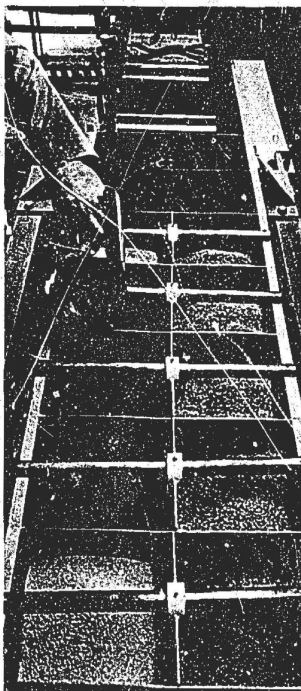
systems complete with hardware and felt media, has gained GAF a leadership position in this market.

A broad line of latex-bonded asbestos gasketing material, under the Gafpac™ trademark, was a significant factor in increased sales to the appliance and automotive industries. GAF wool felts were in demand as clothing, piano, novelty and decorative manufacture operations picked-up following the 1970-71 slowdown.

To keep pace with demand for GAF granule products, expansion programs were initiated at plants at Annapolis, Mo., Charmian, Pa., and Kremlin, Wisc. ■

**Designed For Mixing:** Blends of GAF® colored roofing granules are fed under electronic control onto shingles at the Company's design center in Bound Brook, N.J. to meet special trade requirements. GAF and other customers are able to experiment at the pilot plant to perfect color technology and designs without using normal production facilities.

**Filtration With A Future:** Entire new filtration systems have been engineered by GAF to help industry comply with new environmental and health standards. Illustrative of their portability and convenience is the compact and lightweight GAF pressure vessel filtration system for liquids, which can be used in a wide range of plant operations.



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## International Operations

GAF international operations, including exports of products manufactured in the U.S. as well as those produced and distributed overseas, showed growth in 1972 in the face of many obstacles.

Total international volume reached more than \$100,000,000, an 11 percent rise over 1971, as foreign sales continued to be an important factor in overall operations. GAF products are now marketed in more than 85 countries throughout the globe.

While continuing economic uncertainties, competitive pressures and currency instabilities affected many foreign markets, GAF achieved higher sales through improved merchandising, distribution, customer service and technical assistance programs.

A program to establish wholly owned marketing operations in place of independent distributors was essentially completed in Europe and was begun in Latin America. A new chemical marketing subsidiary formed in Mexico has already established a solid position in that country.

One aspect in the increase posted by the European Chemical operation was the initiation of direct sales of GAF filtration products in nine countries. Direct marketing of GAF floor products also was extended to West Germany and all of the Scandinavian countries.

The photographic operations in Sint-Niklaas, Belgium, which introduced new lines of slide projectors, movie cameras and movie projectors for the European market, made good sales gains. New marketing efforts also brought about increased sales of the GAF® View-Master® product line.

Canadian sales reflected the improved business climate and increases were achieved in the photographic and floor products lines.

As noted for domestic operations in the review of the Business Systems Group, sales of GAF diazoprinters were also up in the European and Australian markets.



Complete Consolidation: Manufacturing operations and administrative headquarters of GAF (Great Britain) Limited are now consolidated in this new facility at Colnbrook, Bucks, near London.

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## Corporate Services

The congeneric concept helps to avoid duplication of Corporate Services in GAF. It permits the benefit of utilizing a strong, centralized, corporate staff to assist line operations in such vital areas as research and development, legal services, data processing, labor relations, engineering, patents, distribution, management development, purchasing, accounting, safety, advertising and promotion, marketing research and commercial development.

Research and development activities are readily apparent in the flow of new products emanating from the various divisions. The new central laboratories at Wayne, N. J., occupied in July, have been organized to carry out research and development and process engineering activities in general organic chemistry, imaging processes, and building materials. They will also serve as a focal point for analytical services, applications research and information services for the corporation and are expected to increase the tempo of GAF innovation.

Advertising programs helped to bring about additional sales as well as a significant increase in GAF brand awareness. Ranging from television and radio commercials to trade exhibits and technical brochures, these creative efforts were directed at the wide variety of GAF consumer markets. Consumer acceptance of actor Henry Fonda as a GAF advertising spokesman was evident throughout the year and his contract was extended for a fourth year.

In the technical services area, Corporate engineers played an essential role in the development of environmental

control and monitoring systems, as well as new production methods, processes and equipment. Company engineers also participated in the planning and design of new facilities and expansion projects.

An expansion of GAF's truck fleet helped to reduce rising costs of outside transportation. At the close of the year, the Distribution Department opened a new center in Atlanta to serve the rapidly growing southeastern market.

On the human resources front, GAF's Personnel Department continued to assure the proper job development and welfare of all employees. Additional training programs were undertaken for supervisory personnel and salesmen. Safety and security precautions were upgraded at all plant locations. Special career recruitment programs were initiated to bring minority groups and women into GAF managerial positions. In conjunction with the opening of the new GAF center at Wayne, Corporate Training facilities were moved to that location and expanded.

Labor-management relations at GAF in 1972 were stable except for one work stoppage involving 400 employees at the Whitehall sheet vinyl plant. Altogether 44 labor contracts and 55 pension agreements were negotiated. ■

## Management Changes

Two new members were elected to the GAF Board of Directors at the annual meeting of shareholders in April 1972. They are James J. O'Leary, Vice Chairman, United States Trust Company of New York, and Victor E. Rockhill, Executive Vice President, The Chase Manhattan Bank, N.A. They succeeded Sumner H. Williams, who, as noted in GAF's 1971 annual report, reached the mandatory retirement age of 70 under Company by-laws, and John B. Bridgwood, who, at age 69, requested that he not be nominated.

Mr. Bridgwood served on the Board from January, 1965 and contributed significantly to the progress of GAF. The Corporation is very grateful for his selfless dedication to this growth and extends every best wish to him in his retirement.

Later in the year, the Board of Directors elected John E. Zimmerman, formerly Vice President of Air Products and Chemicals, Inc., as Executive Vice President and Director of GAF, replacing Edward J. Williams, who resigned in April.

Howard L. Minckler was elected Group Vice President in charge of chemical operations. Mr. Minckler previously was with Monsanto Co.

Dr. Simon W. Kantor was elected Vice President responsible for Research and Development. Dr. Kantor formerly was with General Electric Co.

John J. Butler was elected Vice President in charge of Building Products Division. He previously served as general manager of the Division.

Stanley B. Feuer, Vice President and General Counsel, was elected Secretary. Mr. Feuer replaced Herbert L. Abrons, who retired. ■

## Directors and Corporate Officers

### Directors

**Jesse Werner** Chairman  
**T. Roland Berner**  
**Philip B. Dalton**  
**Rainer E. Gut**  
**Bailey K. Howard**  
**Wm. Peyton Marin**  
**James J. O'Leary**  
**Victor E. Rockhill**  
**Donald L. Sanders**  
**Howard S. Turner**  
**John E. Zimmerman**

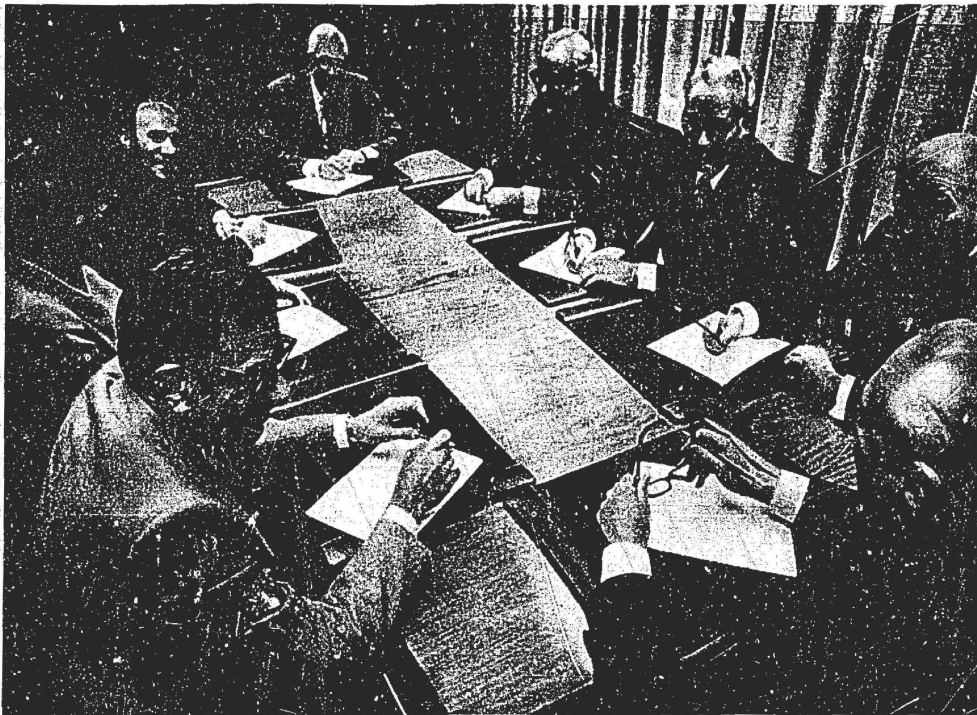
### Corporate Officers

**Jesse Werner** President  
**Philip B. Dalton** Executive Vice President  
**John E. Zimmerman** Executive Vice President  
**Juliette M. Moran** Senior Vice President  
**James M. Cloney** Group Vice President  
**Joseph G. Hall** Group Vice President  
**Howard L. Minckler** Group Vice President  
**James T. Sherwin** Group Vice President  
**Raymond Addeo** Vice President  
**John J. Butler** Vice President  
**J. Stokes Clement** Vice President  
**Thomas A. Dent** Vice President  
**Stanley B. Feuer** Vice President & Secretary

**R. Power Fraser, Jr.** Vice President  
**A. Robert Garofalo** Vice President  
**Jack F. Gow** Vice President  
**Kenneth H. Houtz** Vice President  
**Simon W. Kantor** Vice President  
**N. Paul Klaas** Vice President  
**W. Richard Margern** Vice President & Controller  
**James C. Murphy** Vice President  
**Jay R. Olson** Vice President & Treasurer  
**Alfred P. Rimlinger** Vice President  
**Jack Scheckowitz** Vice President  
**Raymond J. Wilcox** Vice President

**Monday Management Meetings:** Regular weekly meetings of GAF's top management are designed to direct the Company's growth and foster continuous internal communications. The meetings, attended each Monday by the GAF Management Committee and the Company's four group vice presidents, help to establish major policy and integrate diversified operations. Shown clockwise from the right foreground are Dr. Jesse Werner, Chairman and President; Philip B. Dalton, Executive Vice President

(technical services and new fields); Juliette M. Moran, Senior Vice President (communications services); James T. Sherwin, Group Vice President, (photo products); Joseph G. Hall, Group Vice President, (building and industrial products); James M. Cloney, Group Vice President, (business systems); Howard L. Minckler, Group Vice President, (chemicals); and John E. Zimmerman, Executive Vice President, (administrative and financial affairs).



## Financial Review

In the Summary of Operations below, businesses acquired and accounted for on a purchase basis have been included in the Summary of Operations from dates of acquisition. There were no businesses acquired on a pooling of interests basis.

State and local taxes based on income for 1968 to 1971 are now included in Income Taxes rather than in Group Operating Expenses in order to conform with the classification followed in 1972. The effect of a 1971 change in the method of accounting for the investment tax credit was to increase income before extraordinary items and net income for 1972 by \$1,355,000 (\$.10 primary earnings per common share and \$.07 fully diluted earnings per common share), and for 1971 by \$1,068,000 (\$.08 primary earnings per common share and \$.05 fully diluted earnings per common share).

Direct Operating Profit of the Company's five product groups is reported before allocation of general expenses. The Company records results of operations on the basis of responsibility accounting whereby the several lines of business are measured after the identification of only those items of income and expense directly applicable to each of the lines of business. The cost of functions that serve more than one line of business, interest and debt expense, and miscellaneous income and expense items are not allocated to the product groups but are included in Unallocated Corporate Expenses.

Note 1 of Notes to Consolidated Financial Statements on page 26 of this report sets forth the significant accounting policies of the Company, providing background for the Summary of Operations.

	1972	Year Ended December 31			
		1971	1970	1969	1968
		(Dollars in Millions)			
<b>Summary of Operations</b>					
Net Sales by Group					
Chemicals .....	\$156.3	\$145.8	\$142.0	\$151.1	\$137.1
Photo Products .....	205.4	177.8	137.8	145.3	135.4
Business Systems .....	89.1	80.5	83.9	74.8	69.6
Building Materials .....	263.5	233.0	176.1	175.7	168.2
Industrial Products .....	54.2	46.7	43.7	45.1	44.0
Total Net Sales .....	<u>768.5</u>	<u>683.8</u>	<u>583.5</u>	<u>592.0</u>	<u>554.3</u>
Direct Operating Profit by Group					
Chemicals .....	20.4	20.9	20.9	24.2	21.0
Photo Products .....	8.9	4.5	(3.1)	6.8	13.4
Business Systems .....	2.3	2.4	4.5	4.4	4.9
Building Materials .....	42.2	39.3	18.4	17.0	17.9
Industrial Products .....	9.8	8.5	8.3	9.2	8.4
Total Direct Operating Profit .....	<u>83.6</u>	<u>75.6</u>	<u>49.0</u>	<u>61.6</u>	<u>65.6</u>
Discontinued Operations Operating Loss .....	—	(4.3)	(2.6)	(1.0)	(0.2)
Unallocated Corporate Expenses .....	<u>(33.3)</u>	<u>(33.7)</u>	<u>(30.8)</u>	<u>(30.9)</u>	<u>(25.6)</u>
Profit before Income Taxes and Extraordinary Items .....	50.3	37.6	15.6	29.7	39.8
Income Taxes .....	<u>(22.6)</u>	<u>(15.7)</u>	<u>(7.2)</u>	<u>(14.5)</u>	<u>(18.6)</u>
Income before Extraordinary Items .....	27.7	21.9	8.4	15.2	21.2
Extraordinary Items .....	—	(8.4)	6.3	(4.1)	—
Net Income .....	<u>\$27.7</u>	<u>\$13.5</u>	<u>\$14.7</u>	<u>\$11.1</u>	<u>\$21.2</u>

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# Financial Review (continued)

Data per Common Share	1972	1971	1970	1969	1968
Net Sales**	\$55.99	\$50.25	\$42.92	\$43.58	\$41.48
Primary Earnings					
Income before Extraordinary Items	1.75	1.33	.34	.85	1.31
Extraordinary Items	—	(.62)	.46	(.31)	—
Net Income	1.75	.71	.80	.54	1.31
Fully Diluted Earnings					
Income before Extraordinary Items	1.49	1.19	.38	.83	1.23
Extraordinary Items	—	—	.41	—	—
Net Income	1.49	—	.79	—	1.23
Dividends	.40	.40	.40	.40	.40
Shareholders' Equity***	17.19	15.77	15.45	14.96	14.94

\*Figure omitted because not dilutive.

\*\*Sales per common share has been computed by dividing sales by the number of shares of common stock outstanding at the end of the year.

\*\*\* Shareholders' equity per common share was computed by dividing shareholders' equity reduced by liquidation value of preferred stock at the end of the year by the number of shares of common stock outstanding at the end of the year.

## Employment Summary

From 1968 to 1972 the Company's sales increased 39%, the number of employees increased 13%, and wages and salaries including fringes increased 44%. The relation-

ship of wages and salaries including fringe benefits to net sales has remained fairly constant during the last five years.

	1972	1971	1970	1969	1968
	(Dollars in Millions)				
Net Sales	\$768.5	\$683.8	\$583.5	\$592.0	\$554.3
Number of Employees (Year-end)	22,827	21,955	19,773	21,088	20,177
Wages and Salaries Including Fringes	\$224.7	\$204.9	\$183.3	\$180.4	\$156.0
	(Dollars)				
Net Sales per Employee	\$33,666	\$31,146	\$29,510	\$28,081	\$27,472
Wages and Salaries, Including Fringes, as a % of Sales	29.2%	30.0%	31.4%	30.5%	28.1%
Average Wages and Salaries Including Fringes	\$9,845	\$9,334	\$9,273	\$8,555	\$7,732

## Quarterly Data

Quarter	Net Sales		Income		Primary Earnings per Common Share		Fully Diluted Earnings per Common Share	
	1972	1971	1972	1971	1972	1971	1972	1971
First	\$173.3	\$148.2	\$ 5.2	\$ 3.3	\$ .31	\$ .17	\$ .28	\$ .*
Second	193.8	169.1	7.2	5.1	.46	.31	.39	.29
Third	203.2	185.0	8.5	6.8	.55	.43	.46	.37
Fourth	198.2	181.5	6.8	6.7	.43	.42	.36	.36
Total Net Sales	\$768.5	\$683.8						
Income before Extraordinary Items			27.7	21.9	1.75	1.33	1.49	1.19
Extraordinary Items in Fourth Quarter 1971			—	(8.4)	—	(.62)	—	—
Net Income			\$27.7	\$13.5	\$1.75	\$ .71	\$1.49	—

\*Figure omitted because not dilutive.

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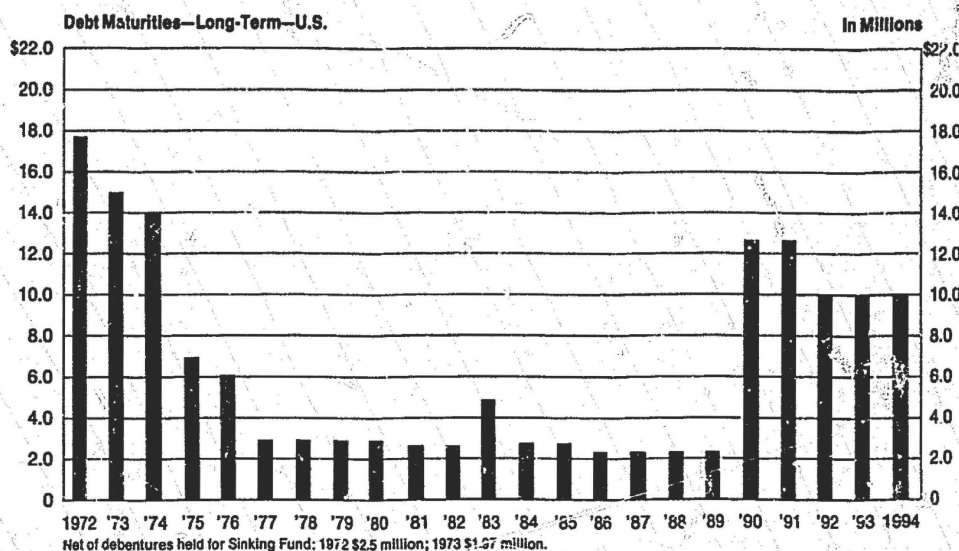
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Financial Condition	December 31				
	1972	1971	1970	1969	1968
	(Dollars in Millions)				
Current Assets .....	\$340.3	\$319.0	\$289.8	\$297.8	\$267.2
Current Liabilities .....	132.0	113.8	84.5	99.8	110.9
Working Capital .....	208.3	205.2	205.3	198.0	156.3
Property, Plant and Equipment—Net .....	224.1	222.6	231.2	235.8	237.5
Total Assets .....	610.8	588.3	561.2	574.2	535.4
Long-term Debt .....	118.1	135.2	136.4	144.3	103.4
Shareholders' Equity .....	321.3	301.8	297.1	290.2	286.4

Short-term debt of \$41.5 million at December 31, 1972 was \$20.5 million greater than one year earlier, while long-term debt including current portion was decreased by \$18.6 million. The higher short-term debt reflects, in part, temporary financing necessary to support increased levels of sales by the photographic group. A large portion of this group's sales are for the Christmas season and extended credit terms are offered with payment generally due in January. Heavy receipts in January 1973 enabled the Company to retire all of its domestic short-term debt for a

short period late in that month, with the exception of certain borrowings from foreign sources required to achieve compliance with the regulations of the Federal agency that enforces the U.S. balance of payments program.

As is shown on the chart below, cash needs for maturities of long-term debt will decline markedly over the near term until 1977 when debt repayment of less than \$3 million is required. Annual payments of currently existing long-term debt remain at that level, with one exception, until the year 1990.



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**GAF Corporation and Consolidated Subsidiaries**  
**Statement of Changes in Consolidated Financial Position**

	Year Ended December 31	
	1972	1971
<b>Funds Provided</b>		
From operations:		
Income before extraordinary items	\$ 27,706,000	\$ 21,907,000
Charges (credits) included in income before extraordinary items not requiring the provision or application of funds:		
Depreciation, amortization, and depletion	24,475,000	23,393,000
Deferred income taxes (non-current portion)	2,847,000	2,432,000
Amortization of deferred investment tax credit	(608,000)	(689,000)
Amortization of deferred charges and intangible assets	1,283,000	1,397,000
Other	2,189,000	1,487,000
Funds provided from operations, exclusive of extraordinary items	57,892,000	49,957,000
Extraordinary items	—	(8,433,000)
Charges (credits) included in extraordinary items not requiring the provision or application of funds:		
Net book value of facilities sold	—	23,301,000
Deferred income taxes (non-current portion)	—	(3,313,000)
Unamortized deferred investment tax credit	—	(804,000)
Funds provided from extraordinary items	—	10,751,000
Funds provided from operations	57,892,000	60,708,000
Issuance of long-term debt	—	15,000,000
Proceeds from exercise of stock options and sale of restricted stock to key employees	1,039,000	641,000
Total	58,931,000	76,349,000
<b>Funds Applied</b>		
Expenditures for property, plant and equipment	29,022,000	29,939,000
Net assets, excluding working capital, of businesses purchased	—	16,513,000
Reduction of long-term debt	15,901,000	17,831,000
Payment of dividends	9,231,000	9,246,000
Other	1,752,000	2,851,000
Total	55,906,000	76,430,000
<b>Increase (Decrease) in Working Capital</b>		
(Including \$545,000 increase in 1971 from purchase of businesses)	3,025,000	(81,000)
Working Capital, Beginning of Year	205,234,000	205,315,000
Working Capital, End of Year	\$208,259,000	\$205,234,000
<b>Summary of Increase (Decrease) in Working Capital</b>		
Cash and marketable securities	\$ 2,691,000	\$ 3,131,000
Accounts receivable	6,211,000	14,559,000
Inventories	15,106,000	9,498,000
Notes payable and current portion of long-term debt	(17,650,000)	(11,895,000)
Accounts payable	(5,167,000)	(2,195,000)
Accrued taxes, wages, etc.	(1,183,000)	(7,741,000)
Federal and foreign income taxes	5,712,000	(7,466,000)
Other	(2,695,000)	2,028,000
Increase (decrease) in working capital	\$ 3,025,000	\$ (81,000)

See Notes to Consolidated Financial Statements

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# Statement of Consolidated Income



	Year Ended December 31	
	1972	1971
<b>Revenues</b>		
Net sales .....	\$768,460,000	\$683,762,000
Other income—net .....	2,463,000	1,403,000
	<u>770,923,000</u>	<u>685,165,000</u>
<b>Costs and Expenses</b>		
Cost of products sold .....	535,395,000	477,236,000
Distribution and selling .....	126,840,000	112,216,000
Research and development .....	14,113,000	12,649,000
Administrative and general .....	33,989,000	30,720,000
Interest .....	10,237,000	10,359,000
Operating loss of discontinued operations (Note 4) .....	—	4,343,000
	<u>720,574,000</u>	<u>647,523,000</u>
<b>Profit Before Income Taxes and Extraordinary Items</b> .....	50,349,000	37,642,000
<b>Income Taxes (Notes 1 and 7)</b> .....	22,643,000	15,735,000
<b>Income Before Extraordinary Items</b> .....	27,706,000	21,907,000
<b>Extraordinary Items (Note 4)</b> .....	—	(8,433,000)
<b>Net Income</b> .....	<u>\$ 27,706,000</u>	<u>\$ 13,474,000</u>
<b>Primary Earnings per Common Share (Note 1)</b>		
Income before extraordinary items .....	\$1.75	\$1.33
Extraordinary items .....	—	(.62)
<b>Net income</b> .....	<u>\$1.75</u>	<u>\$ .71</u>
<b>Fully Diluted Earnings per Common Share (Note 1)</b>		
Income before extraordinary items .....	\$1.49	\$1.19
Extraordinary items .....	—	*
<b>Net income</b> .....	<u>\$1.49</u>	<u>*</u>

\*Figure omitted because not dilutive.

See Notes to Consolidated Financial Statements

## Consolidated Balance Sheet

Assets	December 31	
	1972	1971
<b>Current Assets</b>		
Cash and marketable securities (1972, \$321,000; 1971, \$116,000) at cost, which approximates market .....	\$ 19,819,000	\$ 17,128,000
Accounts receivable—trade, less allowance for doubtful accounts— 1972, \$2,322,000; 1971, \$2,135,000 .....	136,729,000	124,810,000
Accounts receivable—other .....	5,251,000	5,459,000
Anticipated proceeds upon sale of plant facilities (Note 4) .....	—	5,500,000
Inventories (Notes 1 and 5) .....	171,510,000	156,404,000
Prepaid expenses .....	5,701,000	4,298,000
Future Federal income tax benefits (Note 1) .....	1,303,000	5,401,000
Total current assets .....	<u>340,313,000</u>	<u>319,000,000</u>
 Other Investments and Advances .....	 2,525,000	 2,794,000
 <b>Property, Plant and Equipment, at cost (Notes 1 and 6)</b>		
Land, land improvements, and mineral properties .....	14,257,000	15,973,000
Buildings and building equipment .....	107,298,000	110,905,000
Machinery and equipment .....	236,005,000	289,540,000
Construction in progress .....	11,158,000	11,710,000
	<u>368,718,000</u>	<u>428,128,000</u>
Less accumulated depreciation, amortization, and depletion .....	144,309,000	205,488,000
Property, plant and equipment—net .....	<u>224,409,000</u>	<u>222,640,000</u>
 <b>Other Assets</b>		
Cost in excess of net assets acquired (Note 1) .....	35,928,000	36,465,000
Deferred charges, intangibles, etc. ....	7,600,000	7,388,000
Total other assets .....	<u>43,528,000</u>	<u>43,853,000</u>
 <b>TOTAL .....</b>	 <b><u>\$610,775,000</u></b>	 <b><u>\$588,287,000</u></b>



Liabilities	December 31	
	1972	1971
<b>Current Liabilities</b>		
Notes payable .....	\$ 41,502,000	\$ 21,023,000
Accounts payable .....	39,005,000	33,838,000
Accrued taxes, wages, etc. ....	27,885,000	26,702,000
Federal and foreign income taxes .....	8,534,000	14,246,000
Current portion of long-term debt .....	15,128,000	17,957,000
Total current liabilities .....	<u>132,054,000</u>	<u>113,766,000</u>
 Long-term Debt Less Current Portion (Note 8) .....	<u>118,121,000</u>	<u>133,926,000</u>
 <b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes (Note 1) .....	28,997,000	27,402,000
Deferred investment tax credit (Note 1) .....	5,481,000	6,089,000
Obligation under long-term lease (Note 11) .....	3,195,000	3,455,000
Other liabilities .....	1,664,000	1,901,000
Total deferred credits and other liabilities .....	<u>39,337,000</u>	<u>38,847,000</u>
 <b>Commitments and Contingent Liabilities (Note 11)</b>		
 <b>Shareholders' Equity</b>		
Preferred stock, \$1 par value; authorized 6,000,000 shares of \$1.20 convertible series; outstanding—1972, 3,104,108 shares; 1971, 3,170,104 shares; at assigned value of \$1.25 per share (liquidation value 1972, \$85,363,000) (Note 9) .....	3,880,000	3,962,000
Common stock, \$1 par value; authorized 25,000,000 shares; issued shares stated at par value (Note 9) .....	13,762,000	13,618,000
Additional paid-in capital .....	51,769,000	50,550,000
Retained earnings (Note 8) .....	252,147,000	233,672,000
Total .....	<u>321,558,000</u>	<u>301,802,000</u>
Less common stock held in treasury, at cost— 1972, 36,209 shares; 1971, 10,000 shares .....	295,000	54,000
Total shareholders' equity .....	<u>321,263,000</u>	<u>301,748,000</u>
 TOTAL .....	<u>\$610,775,000</u>	<u>\$588,287,000</u>

See Notes to Consolidated Financial Statements

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**Statement of Shareholders' Equity**  
for the Two Years Ended December 31, 1972

	Preferred Stock		Common Stock
	Number of Shares Outstanding	Assigned Value	\$1 Par Value Number of Shares Issued
Balance, January 1, 1971 .....	3,163,071	\$3,954,000	13,598,828
Net income .....			
Cash dividends:			
Preferred stock—\$1.20 per share .....			
Common stock—\$.40 per share .....			
Stock options exercised .....	7,840	9,000	3,700
Issuance of shares under incentive compensation plan and stock purchase plan .....	243		14,000
Conversion of preferred stock .....	(1,050)	(1,000)	1,312
Purchase of treasury shares .....			
Sale of treasury shares .....			
Amortization of excess of quoted market value over aggregate sales price for restricted shares of common stock issued (Note 9) .....			
Balance, December 31, 1971 .....	3,170,104	3,962,000	13,617,840
Net income .....			
Cash dividends:			
Preferred stock—\$1.20 per share .....			
Common stock—\$.40 per share .....			
Stock options exercised .....	2,815	4,000	57,750
Issuance of shares under incentive compensation plan .....	582	1,000	
Conversion of preferred stock .....	(69,393)	(87,000)	86,738
Purchase of treasury shares .....			
Issuance of treasury shares in connection with an acquisition .....			
Amortization of excess of quoted market value over aggregate sales price for restricted shares of common stock issued (Note 9) .....			
Other .....			
Balance, December 31, 1972 .....	<u>3,104,108</u>	<u>\$3,880,000</u>	<u>13,762,328</u>

See Notes to Consolidated Financial Statements

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Additional Paid-In Capital	Retained Earnings	Treasury Stock	
		Number of Common Shares	Cost
\$50,058,000	\$229,444,000	5,000	\$ 27,000
	13,474,000		
	(3,802,000)		
	(5,444,000)		
172,000			
66,000			
		10,000	54,000
		(5,000)	(27,000)
254,000			
50,550,000	233,672,000	10,000	54,000
	27,706,000		
	(3,759,000)		
	(5,472,000)		
977,000			
13,000			

		43,500	668,000
		(17,291)	(427,000)
180,000			
49,000			
<u>\$51,769,000</u>	<u>\$252,147,000</u>	<u>36,209</u>	<u>\$295,000</u>

## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

**Principles of consolidation**—The accounts of all significant subsidiaries of the Company are included in the consolidated financial statements. Certain amounts for 1971 have been reclassified to conform with 1972 classifications. Current assets and liabilities of foreign subsidiaries are translated into U.S. dollars at year-end exchange rates, other assets and liabilities at historical exchange rates, and operating accounts generally at average exchange rates for each year.

**Property, plant and equipment**—Depreciation and amortization are computed principally on the straight-line method based on the estimated service lives of the property. Depletion of mineral properties is provided at fixed rates per ton of materials produced.

**Income taxes**—The tax effects of transactions are recognized in the year in which they enter into the determination of net income, regardless of when they are recognized for tax purposes. Deferred income taxes are provided in recognition of timing differences in reporting certain items of income and expense (principally accelerated depreciation) for income tax and financial statement purposes.

No provision is made for income taxes on unremitted earnings of foreign subsidiaries, since any withholding taxes and Federal income taxes payable on dividends which may be received would be substantially offset by foreign tax credits.

Federal income taxes are not provided on unremitted earnings of a subsidiary (a Domestic International Sales Corporation) aggregating \$1,279,000 because the Company intends to postpone indefinitely the remittance of such earnings.

**Investment tax credit**—The Company accounts for investment tax credits arising since January 1, 1971 as a reduction of the provision for Federal income tax (the flow-through method). Investment tax credits arising prior to that date have been deferred and are being amortized over the estimated service lives of the related assets. The 1971 change recognizes that, based on previous experience, the Company's earnings are depressed during periods of heavy capital expenditures, as a result of start-up expenses and the non-income producing investment of funds, including those invested in initially excess capacity of facilities.

**Inventories**—Inventories are valued at the lower of cost (principally average) or market.

**Cost in excess of net assets acquired**—Cost in excess of net assets acquired arose in connection with the purchase of other companies and businesses. Such excess cost, in the opinion of management, has continuing value and the portion thereof (\$33,221,000) relating to acquisitions prior to November 1, 1970 is not being amortized so long as there is no diminution in value. The remaining excess cost, which relates to acquisitions made subsequent to October 31, 1970, is being amortized on the straight-line method over a period of forty years. Excess cost arising prior to November 1, 1970 is reduced by income tax benefits realized through liquidation and merger into the Company of certain companies acquired in prior years.

**Retirement plans**—The Company and its subsidiaries have several pension plans covering substantially all employees. The companies' policy is to fund amounts equal to pension cost accrued and, as to plans with prior service costs, to amortize such costs over periods ranging from ten to forty years.

**Earnings per share**—Primary earnings per common share are computed by dividing income before extraordinary items and net income less preferred stock dividend requirements by the weighted average number of shares of common stock outstanding during each year. The computations of primary earnings per common share also comprehend the assumed exercise of options granted subsequent to May 31, 1969 for the purchase of shares of common stock; however, their inclusion has no effect on the computed per share amounts.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive as to either income before extraordinary items or net income on a per share basis) that the convertible securities outstanding at the end of each year had been converted into shares of common stock at the beginning of the year, and that conversions occurring during each year had occurred at the beginning of the year. Appropriate adjustments for dividends on preferred stock and interest (net of income tax effect) are made to earnings applicable to common stock for assumed conversions. The computations of fully-diluted earnings per share also assume the exercise of options for the purchase of shares of preferred and common stock where the effect thereof would be dilutive.

## 2. Foreign Operations

The consolidated balance sheet includes the following amounts with respect to foreign subsidiaries (all of which are wholly-owned):

	1972	1971
	(In Thousands)	(In Thousands)
Current assets	\$42,001	\$38,986
Other assets	12,571	5,578
Total assets	54,572	44,562
Current liabilities	20,182	13,195
Other liabilities	2,629	2,159
Total liabilities	22,791	15,354
Net assets	\$31,781	\$29,208

The statement of consolidated income includes the following amounts with respect to foreign subsidiaries:

	1972	1971
	(In Thousands)	(In Thousands)
Revenues	\$78,998	\$65,040
Income before extraordinary credits	2,578	3,126
Extraordinary credits	—	1,153
Net income	2,578	4,279

## 3. Acquisitions, etc.

In March 1971, the Company acquired certain photofinishing plants and the business and assets relating thereto for a net cash purchase price of approximately \$15,200,000.

In 1972, the Company completed studies (including independent appraisals) to determine the fair value of certain of the assets included in 1971 acquisitions and recorded at the time at tentative values. As a result of these studies certain reallocations, which did not have a significant effect on the consolidated financial statements, of these tentative values were made.

The Company's ownership of an Australian subsidiary, Consolidated Reprographics, Ltd., was increased to 100% at December 31, 1972 through cash purchases of this subsidiary's shares of capital stock from minority shareholders amounting to approximately \$156,000 in 1972 and \$1,479,000 in 1971. The equity of minority shareholders in the net income of this subsidiary amounted to \$198,000 in 1971, and has been applied as a reduction of other income.

## 4. Extraordinary Items

Extraordinary (charges) credits consisted of the following:

	1971
	(In Thousands)
Provision for estimated loss on disposal of certain plant facilities and related costs, less estimated reduction of state and local income taxes of \$477,000	\$(18,975)
Less estimated credits (provision) for Federal income taxes and investment tax credit:	
Current	718
Deferred	8,570
Excess of investment tax credit recapture over unamortized deferred investment tax credit of \$804,000	(13)
Total	9,273
Estimated net loss	(9,702)
Net gain on translation of foreign currencies	992
Other items—net (principally reversal of the excess portion of a 1969 provision for loss on disposal of facilities)	277
Total	\$(8,433)

The Company's chlorine caustic operations were discontinued in September 1971, the ethylene oxide and Calsilite® operations were discontinued in November 1971, and the related production facilities were disposed of in 1972. The estimated net loss and related costs resulting from the disposal of these facilities and an unused quarry, less a gain on the 1971 sale of certain woodlands, amounted to \$9,702,000 as shown in the above summary. The sale of the facilities in 1972 resulted in a loss which was \$20,000 greater than anticipated. Such loss is included in the 1972 statement of consolidated income.

Following is a summary of the operating loss (see (a) below) of the discontinued operations:

	1971
	(In Thousands)
Net sales	\$15,286
Cost of products sold	18,051
Directly related expenses	1,558
Total	19,609
Operating loss (a)	\$ 4,343

(a) The Company reports its operations on the basis of responsibility accounting, under which the various lines of business are measured after the assignment of only those items of income and expense for which each line of business is directly responsible. Accordingly, the amounts of operating loss as shown above are before the allocation of interest expense, the cost of functions that serve more than one line of business, miscellaneous expense and income items, and income tax effect.

## Notes to Consolidated Financial Statements (continued)

### 5. Inventories

Inventories at December 31, 1972 and 1971 consisted of the following:

	1972	1971
	(In Thousands)	(In Thousands)
Finished goods .....	\$ 86,871	\$ 78,405
Work in process .....	38,359	33,368
Raw materials and supplies .....	48,280	44,631
Total .....	<u>\$171,510</u>	<u>\$156,404</u>

### 6. Property, Plant and Equipment

During 1972, all fully depreciated assets, amounting to \$73,938,000, were written off against accumulated depreciation.

### 7. Income Taxes

The provision (credit) for income taxes (exclusive of amounts included in extraordinary items) consists of the following:

	1972	1971
	(In Thousands)	(In Thousands)
Federal—current .....	\$12,536	\$ 9,028
Federal—deferred .....	6,023	4,531
Foreign income taxes .....	2,548	2,356
Amortization of deferred investment tax credit arising prior to 1971 .....	(608)	(689)
State taxes based on income .....	2,144	509
Total .....	<u>\$22,643</u>	<u>\$15,735</u>

Investment tax credits of \$1,521,000 in 1972 and \$1,139,000 in 1971 have been applied as a reduction of the provision for current Federal income taxes.

The Internal Revenue Service has proposed additional assessments of approximately \$4,746,000 plus interest for the years 1967 and 1968 for the Company and certain companies acquired or merged with GAF since 1965. The Company is of the opinion that adequate provision has been made for any additional liability which might arise therefrom.

### 8. Long-term Debt and Dividend Restrictions

Long-term debt at December 31, 1972 and 1971 is as follows:

	1972	1971
	(In Thousands)	(In Thousands)
3½% notes due March 1, 1972 .....	\$ —	\$ 5,250
4½% notes due June 30, 1972 with quarterly installments of \$1,000,000 .....	—	2,000
6¼% notes due May 1, 1974 with quarterly installments of \$2,500,000 (Interest rate at ¼ of 1% above floating prime) .....	15,000	25,000
6% notes due September 15, 1976 with quarterly installments of \$1,000,000 beginning March 15, 1973 (Interest rate at floating prime through December 31, 1972 and increasing at specified dates thereafter to a maximum of ½ of 1% above floating prime) .....	15,600	15,600
5½% Convertible Subordinated Notes due April 1, 1983 with annual prepayments of \$200,000 on April 1, 1972 through 1982 and balance of \$1,800,000 payable April 1, 1983 .....	3,800	4,000
5½% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of \$2,500,000 beginning December 1, 1972, less \$1,970,000 and \$3,980,000 in treasury in 1972 and 1971, respectively .....	45,530	46,020
5% Convertible Subordinated Notes due April 1, 1994 with annual prepayments of \$10,000,000 beginning April 1, 1990, less \$100,000 in treasury .....	49,900	49,900
Other notes, which bear interest at 5½% to 9% and mature at various dates to 1986 ..	4,019	4,713
Total .....	<u>133,249</u>	<u>151,883</u>
Less portion due within one year .....	<u>15,128</u>	<u>17,957</u>
Long-term debt, less current portion ....	<u>\$118,121</u>	<u>\$133,926</u>

The 5% convertible subordinated notes are convertible into shares of common stock, at any time, at a conversion price of \$27.50 per share (subject to future anti-dilution adjustments in specified circumstances). The 5½% convertible subordinated notes are convertible into shares of common stock, at any time prior to April 2, 1976, at a conversion price of \$28.72 per share (subject to future anti-dilution adjustments in specified circumstances).

Dividends are restricted under the provisions of certain loan agreements. Under the most restrictive of these provisions, approximately \$205,000,000 of the consolidated retained earnings at December 31, 1972 was not available for dividends.



### 9. Capital Stock

The \$1.20 convertible preferred stock, dividends on which are cumulative, is convertible, at any time, into common stock at the rate of 1 1/4 shares of common stock for each share of preferred. The Company may redeem the preferred stock at specified prices ranging from \$30.00 per share through May 31, 1973 to \$27.50 per share after May 31, 1977.

Under the provisions of the Company's stock option plan, options to purchase shares of common stock may be granted to key employees during a ten-year period ending March 31, 1975. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the dates the options are granted. The options are exercisable after a one-year waiting period and terminate five years from date of grant. A summary of transactions affecting the Company's stock option plan is as follows:

	Number of Shares		Average Option Price	
	1972	1971	1972	1971
Common Stock Options				
Outstanding Jan. 1	201,800	280,250	\$20.35	\$22.92
Granted	74,750	—	21.20	—
Exercised	(57,750)	( 3,700)	17.28	12.16
Terminated	(29,900)	(90,750)	24.08	29.07
Outstanding Dec. 31	190,900	201,800	21.04	20.35
Exercisable Dec. 31	118,150	201,800	20.94	20.35
Available for Grant Dec. 31	318,850	368,700		

In addition to the above, shares of the \$1.20 convertible preferred stock were reserved for options assumed by the Company at the time of an earlier merger. A summary of transactions for the past two years is as follows:

	Number of Shares		Average Option Price	
	1972	1971	1972	1971
Preferred Stock Options				
Outstanding Jan. 1	2,815	13,743	\$14.92	\$17.39
Exercised	(2,815)	(7,840)	14.92	17.86
Cancelled	—	(3,086)	—	18.46
Outstanding Dec. 31	—	2,815	—	14.92

Under the provisions of the Company's restricted and unrestricted stock purchase plan, 650,000 shares of common stock may be sold to key employees. The plan as originally adopted provides that restricted and unrestricted shares may be sold at prices which are not less than 20% and 80%, respectively, of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered for sale. The minimum purchase price of restricted shares under the plan in the future is to be raised from 20% to 50% of such market price in accordance with a court-approved settlement terminating certain shareholders' derivative litigation. The excess of quoted market value over the aggregate sales price for restricted shares sold is being amortized by charges to income over the restriction period. The unamortized balance to be amortized through the period ending January 15, 1980 amounted to \$2,918,000 and \$3,403,000 at December 31, 1972 and 1971, respectively. Under certain conditions, the Company has the right to repurchase restricted shares of common stock at the original selling price.

The number of shares of the Company's capital stock reserved for issuance at December 31, 1972 and 1971 were as follows:

	1972	1971
<b>\$1.20 Convertible Preferred Stock</b>		
Reserved for exercise of stock options	—	2,815
Reserved for payment of deferred stock awards under incentive compensation plan	3,129	3,711
<b>Total</b>	<b>3,129</b>	<b>6,526</b>
<b>Common Stock</b>		
Reserved for conversion of \$1.20 convertible preferred stock, including 3,911 and 8,158 shares, respectively, for stock options and deferred stock awards	3,884,048	3,970,788
Reserved for exercise of stock options	510,750	568,500
Reserved for conversion of 5 1/2 % convertible subordinated notes	132,312	135,279
Reserved for conversion of 5% convertible subordinated notes	1,814,546	1,814,546
Reserved for sale under restricted and unrestricted stock purchase plan	458,060	437,000
<b>Total</b>	<b>6,799,654</b>	<b>6,930,113</b>

## Notes to Consolidated Financial Statements (continued)

### 10. Retirement Plans

Pension cost amounted to \$5,961,000 in 1972 and \$5,539,000 in 1971. The actuarially computed value of vested benefits exceed the total of pension funds and accrued liabilities for pension cost by \$13,612,000 at December 31, 1972.

### 11. Commitments and Contingent Liabilities

Under the terms of a long-term lease obligation (which has been capitalized) covering 3% to 4% City of Annapolis, Missouri, industrial revenue bonds, an annual rental of approximately \$385,000 is payable until September 30, 1983 to cover bond principal and interest.

The companies were obligated under other long-term leases at December 31, 1972 as follows:

Leases Expiring In	Aggregate Annual Rental (in Thousands)
2-5 Years .....	\$1,092
6-10 Years .....	644
11-20 Years .....	2,846
Over 20 Years .....	855

The companies had commitments of approximately \$18,378,000 at December 31, 1972 for the acquisition of property, plant and equipment.

The Company has pending with the Cost of Living Council (formerly the Price Commission) a request for an increase in its "base period profit margin" under Phase II of the Government's Economic Stabilization Program. In the event the Company's request is denied in its entirety, the Company's 1973 net income could be adversely affected by approximately \$700,000, because its 1972 profit margin exceeded its base period profit margin.

At December 31, 1972, there were certain lawsuits and claims pending against the companies. In the opinion of management the ultimate disposition of these matters will not materially affect the companies' consolidated financial position.

## HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY  
NEW YORK 10004

To the Shareholders and Board of Directors of GAF Corporation:

We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1972 and 1971 and the related statements of consolidated income, shareholders' equity, and changes in consolidated financial position for the two years ended December 31, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1972 and 1971 and the results of their operations and the changes in their financial position for the two years ended December 31, 1972, in conformity with generally accepted accounting principles applied on a consistent basis.

February 7, 1973

*Haskins & Sells*

## Directory of GAF Products and Services

### GAF® Chemical Products

**Surfactants:** nonionic, anionic, cationic, and amphoteric surface-active agents for use as detergents, emulsifiers, dispersants and wetting agents.

**Specialty Chemicals:** processing and formulating agents, including blocklers, antistats, flame-retardants for plastics, coating and finishing agents, adhesive additives, sequestrants, lubricants, corrosion inhibitors, flocculants, and solvents for use in various industries.

**Textile Chemicals:** textile auxiliaries, flame retardants, carpet antistats; rubber latices for rug backings and fabric coatings; latex foam backing for drapery fabrics; latex adhesives for fabric lamination.

**High-Pressure Acetylene Derivatives:** monomers, polymers, copolymers, solvents, organic intermediates, and specialty chemicals derived from acetylene for use in cosmetic, petroleum, pharmaceutical, plastic, textile, adhesive, and a variety of other industries.

**Industrial Organic Chemicals:** complex cyclic and aliphatic compounds for use as active ingredients and as intermediates in the dye, pharmaceutical, agricultural, and chemical processing industries.

**Dyestuffs:** used in dyeing cotton, wool, silk, rayon, acetate, nylon, polyester, acrylics, and other manmade fibers and blends; also paper, leather, and detergents; acid, azo, azolic, basic, condensation, chrome, direct, disperse, mordant, metalized, and vat dyes; fluorescent brighteners; and oil-, spirit-, water-soluble dyes.

**Pigments:** lakes, dispersed powders, toners, dispersed pastes, and preescakes used in coloring paints, lacquers, and other protective coatings, plastics, printing inks, rubber, solvents, oil, waxes, and in melt spinning or dyeing of fibers; azo, benzidine, BON, carbazole, carbon, chrome, dianilidine, molybdate, naphthol, nitroso, oxide, PMA, phthalocyanine, PTA, and pyrazolone pigments.

**Iron Powders:** microscopic-size spheres of iron used in VHF and UHF circuitry, transmitters, receivers, radar, and in powder metallurgy.

**Silver Salts:** silver nitrate, silver cyanide, monovalent and divalent silver oxides for photography, electroplating, battery, and other applications.

**Ultraviolet Absorbers:** ultraviolet-screening agents for plastics, textiles, pigments, rubber, adhesives, and cosmetics.

### GAF® Photo Products

**Consumer Products:** still and movie cameras, slide projectors, movie projectors, color slide and print films, black-and-white films, papers, chemicals, and accessories.

**Pictorial Products:** View-Master® stereo viewers, picture reels, projectors, and toys; Pana-Vue® slide viewers and color slides for educational, entertainment, and commercial uses.

**Graphic Arts Products:** films, papers, and chemicals for offset printing, photolithography, photoengraving, rotogravure, phototypesetting, and silk-screen printing.

**Professional Products:** color and black-and-white films, color and black-and-white paper and chemicals for portrait, school photography, photofinishing, and industry; specialized materials for seismic recording, instrumentation, surveillance, oscillography, computer output microfilming (COM), and motion pictures.

**Photomaging Products:** high resolution see-through glass plates, film, and photoresist for the electronics industry.

**X-Ray Products:** medical and industrial X-ray films, chemicals, and accessories; radiologic teaching aids.

### GAF® Business Systems Products

**Business Machines:** GAF® electrostatic copiers, papers, toners, and supplies.

**Business Forms:** custom designed and printed data-processing forms, sales books, manifold order books, single copy forms, unitset forms, voucher and receipt books; Card-Set™ forms and forms for autographic register and similar items.

**Diazo Reproduction Products:** diazo copying machines and sensitized materials for engineering and business systems; drafting materials and supplies.

**Audio-Visual Products:** overhead and slide projectors, overhead projection transparency series for pre-school through college instruction, custom transparency production service, materials and supplies; computer-interfacing and manually operated random access slide projectors.

**Micrographic Products:** complete line of diazo microfilm, roll film duplicating equipment, microfiche film readers, and diazo duplicating films.

**Contract Sales:** contract manufacture of precision parts and equipment.

### GAF® Building Products

Asphalt roof shingles; roll roofing and siding, asphalt, asbestos, or tar built-up roofing felts; asphalt protective coatings and cements; T/NA 200® roofing membrane; mineral fiber board, roof shingles, siding; asbestos cement canal bulkhead, corrugated and flat sheets; building and roof insulation; Siro-talite® thatch siding; Vanguard™ vinyl siding; decorative brick interior wall covering; and Vanguard™ decorative shutters.

**GAF® Floor Products:** asphalt and Vinylflex® vinyl asbestos resilient floor tiles, Vinylglo® sheet vinyl floorings, Flor-Bond® adhesives, Fashioncove® covc base, and floor finishes and cleaners for residential and commercial uses.

### GAF® Industrial Products

**Felt and Filter Products:** wool and synthetic fiber felts and filter devices for liquid and gas filtration; pressure vessel filter systems; sealing and lubricating devices; plate-glass and metal polishing felts; piano felts; wool felts for apparel and interior design; felts for automotive, industrial, and aerospace applications; papermakers' felts for paper; and nonwovens.

**Asbestos Products:** asbestos fibers; asbestos papers, boards, and gasketing materials.

**Sound Control Products:** automotive and industrial sound deadening and noise control products.

**Granules:** mineral granules for roofing and other uses, inert fillers, and slate flour.

### GAF® Photo Service

Nationwide processing service for black-and-white and color still and movie films.

## Directory of GAF Locations Corporate Offices

140 West 51 Street • New York, N.Y. 10020

### Domestic Operations

GAF Corporation has 54 plants, 24 research laboratories, 257 sales offices, 88 distribution centers, 17 photofinishing plants, and 5 photo equipment repair centers throughout the U.S.A.

**Alabama** Birmingham, Huntsville, Mobile; **Arizona** Phoenix; **California** Bakersfield, La Habra, Long Beach, Los Angeles, Sacramento, San Diego, San Jose, South San Francisco, Van Nuys; **Colorado** Denver; **Connecticut** Greenwich, Hartford, Stamfordville; **Florida** Miami, Orlando, Tampa; **Georgia** Atlanta, Dalton, Fairmount, Savannah; **Illinois** Chicago, Franklin Park, Joliet, Lincolnwood, Melrose Park, Peoria; **Indiana** Indianapolis, Mount Vernon, South Bend; **Iowa** Mason City; **Kansas** Kansas City; **Kentucky** Calvert City; **Louisiana** New Orleans; **Maryland** Baltimore, Cheverly, Hagerstown; **Massachusetts** Boston, Franklin, Millis, Westwood; **Michigan** Detroit, Warren; **Minnesota** Minneapolis; **Missouri** Annapolis, Joplin, Kansas City, Maryland Heights, St. Louis; **New Jersey** Bound Brook, Gloucester City, Linden, Paterson, South Bound Brook, Union, Wayne; **New York** Binghamton, Brooklyn, Delmar, Glens Falls, Johnson City, Newburgh, New York, Queens, Rensselaer, Rochester, Schenectady, Utica, Vails Gate, Vestal; **North Carolina** Charlotte; **Ohio** Canton, Cincinnati, Cleveland, Columbus, Elyria, Shelby, Springfield, Toledo, Youngstown; **Oregon** Eugene, Portland; **Pennsylvania** Blue Ridge Summit, Erie, Monroeville, Paoli, Philadelphia, Pittsburgh, Reading, Whitehall; **Rhode Island** Westerly; **South Carolina** Charleston, Greenville; **Tennessee** Chattanooga, Johnson City, Knoxville, Nashville; **Texas** Arlington, Dallas, Houston, San Antonio, Texas City; **Vermont** Hyde Park; **Washington** Seattle, Spokane; **Wisconsin** Appleton, Brookfield, Milwaukee, Pabine.

### Domestic Subsidiaries

GAF Export Corporation, New York, N.Y., Carolina, Puerto Rico; Lenco Photo Products, Inc., New York, N.Y.; GAF International Corporation, New York, N.Y.

### International Operations

1180 Avenue of the Americas • New York, N.Y. 10036

### Manufacturing and Marketing Subsidiaries

GAF (Australasia) Pty. Ltd., Alexandria, Australia; GAF (Qld.) Pty. Ltd., Brisbane, Australia; GAF (S.A.) Pty. Ltd., Adelaide, Australia; GAF (Vic.) Pty. Ltd., Melbourne, Australia; GAF (W.A.) Pty. Ltd., Perth, Australia; GAF (Belgium) N.V., Sint-Niklaas, Belgium; GAF (Canada) Limited, Mississauga, Montreal, Toronto, Vancouver, Canada; GAF (Denmark) A/S, Ballerup, Denmark; GAF (Deutschland) G.m.b.H., Cologne, Frankfurt, Hamburg, Germany; GAF (France) S.A., Louvres, France; GAF (Great Britain) Limited, Colnbrook, Hounslow, Manchester, England; Helioprint Hellas S.A., Athens, Greece; GAF (Ireland) Limited, Dublin, Ireland; GAF (Italia) S.r.l., Pero, Italy; GAF (Japan) Limited, Tokyo, Japan; GAF Corporation de Mexico, S.A. de C.V., Mexico City, Mexico; GAF (Nederland) N.V., Delft, Holland; GAF (New Zealand) Pty. Ltd., Wellington, New Zealand; GAF (Norge) A/S, Oslo, Norway; GAF (Osterreich) G.m.b.H., Vienna, Austria; GAF Svenska AB, Stockholm, Sweden; GAF (Switzerland) A.G., Zug, Switzerland. **Affiliates** Chemical Developments of Canada, Limited, Pointe Claire, Quebec, Canada; Sawyer's Asia Pty. Ltd., Bombay, India.

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### Registrars

The Chase Manhattan Bank, N.A.  
One Chase Manhattan Plaza  
New York, New York 10015

Commercial Trust Company of New Jersey  
15 Exchange Place  
Jersey City, New Jersey 07302

### Transfer Agents

First National City Bank  
111 Wall Street  
New York, New York 10015

First Jersey National Bank  
One Exchange Place  
Jersey City, New Jersey 07303

GAF Corporation 140 West 51 Street New York, New York 10020



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